

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 6275

BILL NUMBER: SB 635

DATE PREPARED: Jan 20, 1999

BILL AMENDED:

SUBJECT: Valuation of personal property.

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FUNDS AFFECTED: **GENERAL**
 X DEDICATED
 FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill authorizes a taxpayer to value inventory for personal property tax purposes on any date from January 1 through February 28.

Effective Date: January 1, 2000.

Explanation of State Expenditures:

Explanation of State Revenues: The State levies a one cent tax rate for State fair and State forestry. Any reduction in assessed value will decrease the revenue derived from property tax for these two funds.

Explanation of Local Expenditures:

Explanation of Local Revenues: This bill would allow a taxpayer to make an election to value inventory on any date between January 1 and February 28 instead of March 1. This election is good only for the year in which it is made. This provision would allow taxpayers to change inventory assessment dates on an annual basis if they wish. The bill also requires all inventory that is to be included on the return to be valued as of the same date. Since a separate return is filed in each taxing district in which the taxpayer owns property, a taxpayer would be able to use a different assessment date for each location.

Businesses that have their major sales activities during the spring would be building inventories during the winter months. These businesses would show a smaller inventory on January 1 than on March 1. Since the change in valuation dates would be at each taxpayer's election and not a blanket change, only taxpayers who would benefit from the new assessment date would make the change. A January 1 assessment date could be attractive as many taxpayers complete a year-end inventory anyway.

A potential problem would involve a taxpayer who owns more than one business or has more than one location. If each business or location used a different assessment date, inventory could be transferred back and forth between the two businesses or locations and may not be assessed at all.

This bill would cause a reduction in the assessed value tax base. Total local revenues, except for cumulative funds, would remain unchanged. The revenue for cumulative funds would be reduced by the product of the fund rate multiplied by the deduction amount applicable to that fund.

Total net property tax on inventory is estimated at \$395 million in CY 1998. The reduction in AV would create a shift in the tax burden from those taxpayers that will have lower inventory AVs to all taxpayers. The actual fiscal impact would depend on the number of taxpayers making the election, and the difference in inventory levels between the two assessment dates.

State Agencies Affected: State Board of Tax Commissioners.

Local Agencies Affected: County and Township Assessors.

Information Sources: *1998 Property Tax Analysis*, State Board of Tax Commissioners.